

BUDGET PROCESSES SPOTLIGHT: HOW STATES USE PERFORMANCE DATA

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Recently, NASBO released the 2015 edition of [Budget Processes in the States](#), which provides a 50-state comparative analysis on a wide range of topics to demonstrate the diversity in state budgeting practices. In this “Budget Processes Spotlight” series, NASBO will select special topics of interest and highlight relevant data in the 2015 publication, as well as provide further analysis and context. This first issue brief in the series takes a closer look at state-reported data related to the use of performance information.

Introduction

Resources for state budgets are now quite limited, with spending needs and desires growing faster than state revenues. This reality, along with new technologies that have enhanced capacity for data collection, analysis and presentation, has led to growing interest and increased efforts to harness performance data to inform budget and management decisions. In line with this trend, NASBO has been engaged in ongoing work on the use of performance data and evidence in the state budget process.

NASBO’s work has included holding numerous member roundtable events, meeting sessions, focus groups, and conference calls, with support from the Annie E. Casey Foundation. NASBO’s Spring 2014 report, [Investing in Results: Using Performance Data to Inform State Budgeting](#), highlighted key themes and lessons learned related to performance budgeting based on these member discussions and state-specific case studies.

The 2015 edition of NASBO’s [Budget Processes in the States](#) provides expanded 50-state information regarding performance management and budgeting. This brief highlights key data points from the report on these topics and provides some additional context around them.

How Many States “Do” Performance Budgeting?

NASBO often receives inquiries from state officials, academic researchers, and other nonprofit organizations regarding

the extent to which performance budgeting is used at the state level. While the question, “How many states practice performance budgeting?” may sound straight-forward, coming up with the answer can be tricky. This is the case for a number of reasons, including the variety of definitions and terms used in performance budgeting, as well as the reality that states tend to use performance budgeting in conjunction with other budgeting techniques. States generally use performance data as one tool to inform funding decisions, for example to help justify new investments or to guide budgeting in a particular program area such as criminal justice. As NASBO’s *Investing in Results* report explains, “Whether states use a performance-based approach to budgeting is not typically a straightforward ‘yes’ or ‘no’ answer; in fact, performance budgeting use at the state level should probably be viewed along a continuum from minimal to extensive use, with significant variation on how this is accomplished.”¹

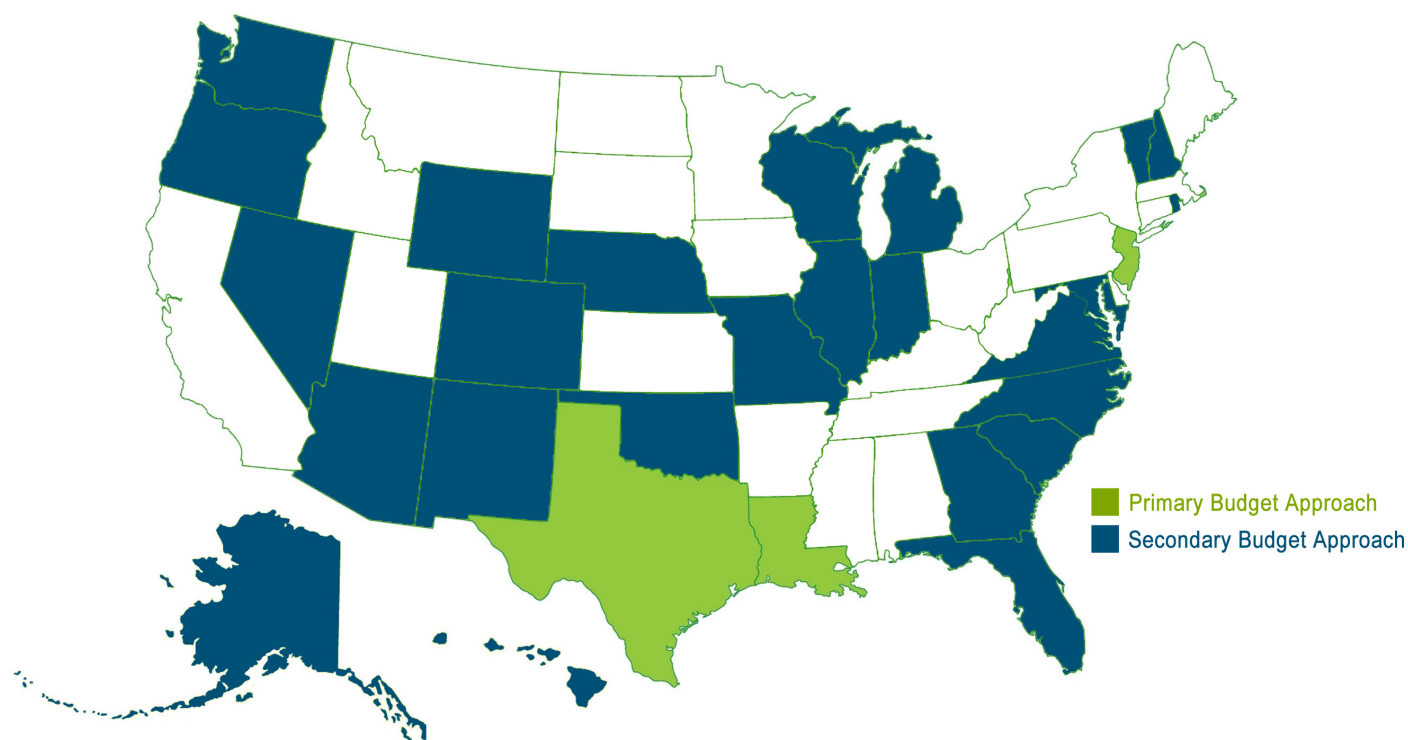
In order to get a better handle on the extent to which states use a performance budgeting approach, NASBO framed the *Budget Processes* survey question in two parts: 1) What one budget approach does your state primarily use? and 2) What other approach(es) does your state use in conjunction with your state’s primary budget approach? States were able to select from the following five choices: incremental budgeting, line-item budgeting, program budgeting, performance budgeting and zero-base budgeting/modified ZBB. In an attempt to standardize responses somewhat, definitions were provided for each approach, with performance budgeting defined as follows:



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Figure 1. 28 States Use Performance Budgeting as a Primary or Secondary Budget Approach



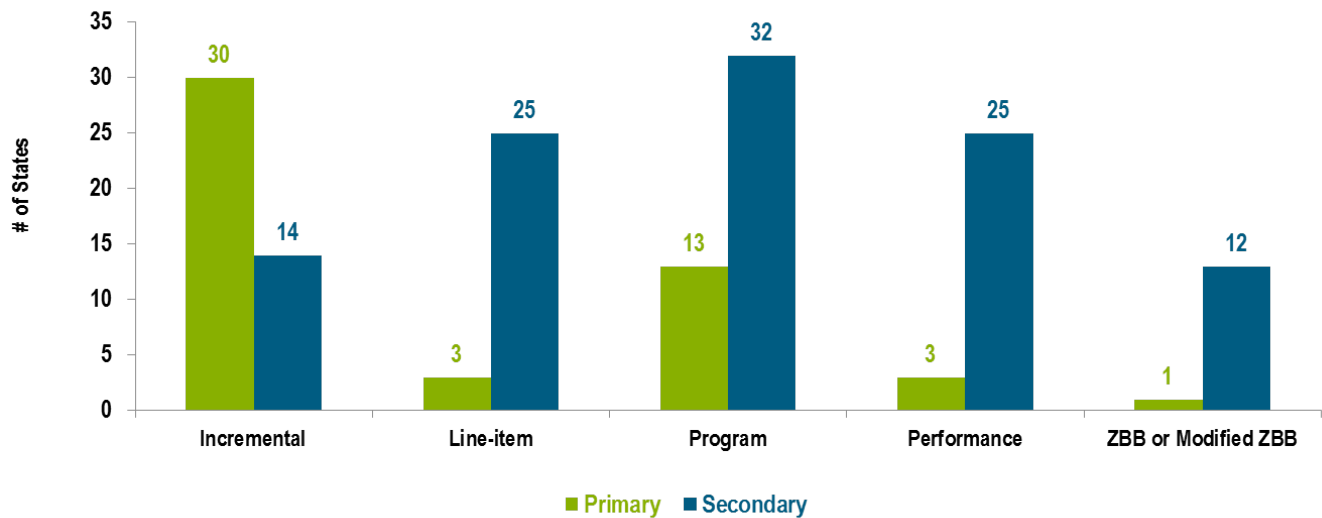
Definition of Performance Budgeting:

“Similar to program budgeting, this budgeting approach also uses programs or activities as budget units, and presents information on program goals and performance. This budget system places emphasis on incorporating program performance information into the budget development and appropriations process, and allocating resources to achieve measurable results.”²

As **Figure 1** shows, just three states (in addition to the District of Columbia) selected performance budgeting as their primary budget approach, though 25 additional states listed it as a secondary budget approach used in conjunction with their main approach.

For a fuller picture of states’ responses to NASBO’s *Budget Processes* survey, see **Figure 2**. It is evident that incremental budgeting, whereby funding decisions are made on the margin and are based on justifications for spending increases or decreases, remains the most common budget approach used by states,

with 30 states using it as their primary decision model and an additional 14 states using it to complement their primary approach. Discussions with many state budget officials at NASBO convenings indicate that performance is frequently used, but most often as a management tool and not always as a core budgeting tool. Program budgeting, which identifies programs or activities, rather than line items, as the primary budget units, and presents information on program missions, goals and effectiveness, is the next most common, with 13 states calling it their primary budget approach and 32 other states identifying it as a secondary budget approach.³

Figure 2. Majority of States Still Use Incremental Budgeting as Primary Approach

What Types of Performance Measures Do States Collect?

Whether or not states practice “performance budgeting” per se, nearly all states indicated that they collect performance measures. Forty-six states reported that measures are collected in some form, with 44 states collecting program-level performance measures, 37 states collecting agency-level measures and 12 states collecting statewide quality of life measures. Furthermore, states were asked whether they collect input measures, output measures, efficiency measures and/or outcome measures.⁴ NASBO’s *Investing in Results* report defines these terms as follows:

Input Measure. This is a measure of the amount of resources provided or used to carry out a program. This is often reported as a dollar amount but can also include other inputs, such as full-time employees (FTEs).

Output Measure. This is a measure of the quantity of service, product or activity performed or provided. Examples include the number of students enrolled in a school district or the number of driver’s licenses generated.

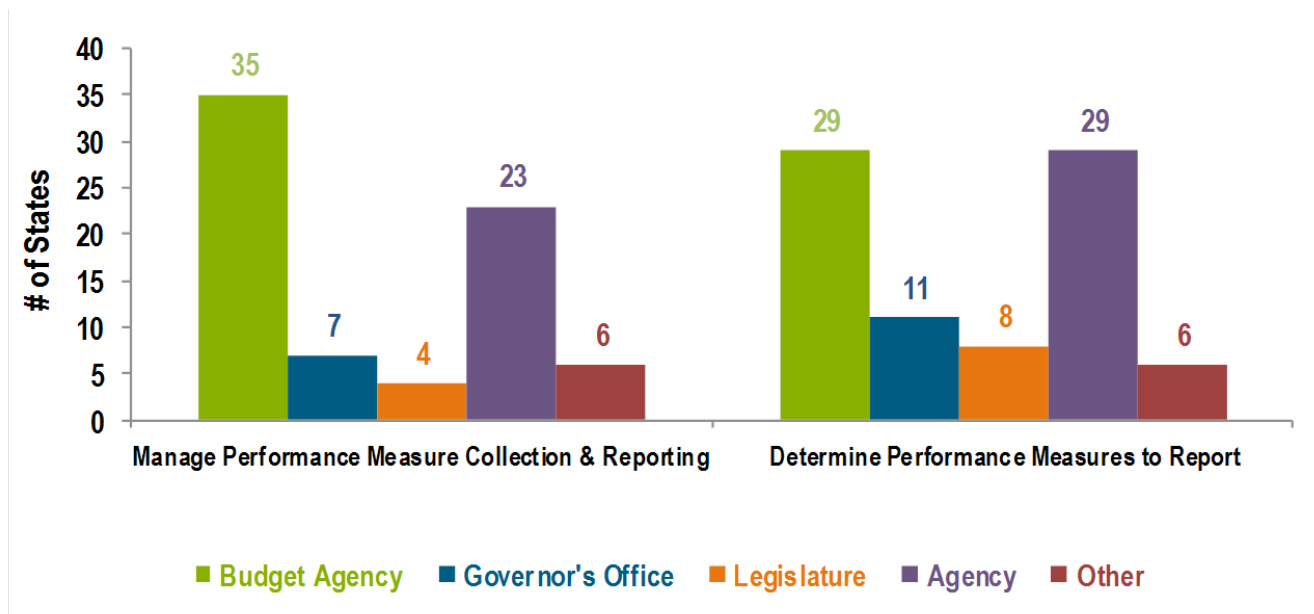
Efficiency Measure. This represents as a ratio how much output was obtained per unit of input. An example would

be the cost per invoice produced (input divided by output) or invoices processed per employee (output divided by input).

Outcome Measure. This is a measure of the result associated with a program or service. Outcome measures can be short- or long-term results that can be directly linked to a government program or service. Examples include the percentage of students reading at grade level, air quality, or the traffic fatality rate. Outcome measures are often the most desirable measures but the most difficult to use and analyze, as major system outcomes are generally derived from a variety of services, products and activities, and isolating the root cause of change is often challenging.

Different measures serve different purposes, and have various strengths and limitations. Therefore, it is generally advised to use a combination of measure types to assess the performance of a program, while at the same time limiting the overall number of measures to avoid overly burdensome reporting requirements and lack of focus.⁵ Thirty states reported that they collect all four types of performance measures listed above. Several states also listed other types of performance measures collected, such as measures of effectiveness, quality and customer service.

Figure 3. Most Budget Offices Are Involved in Overseeing Performance Measures



What Role Does the State Budget Office Play in Performance Measurement?

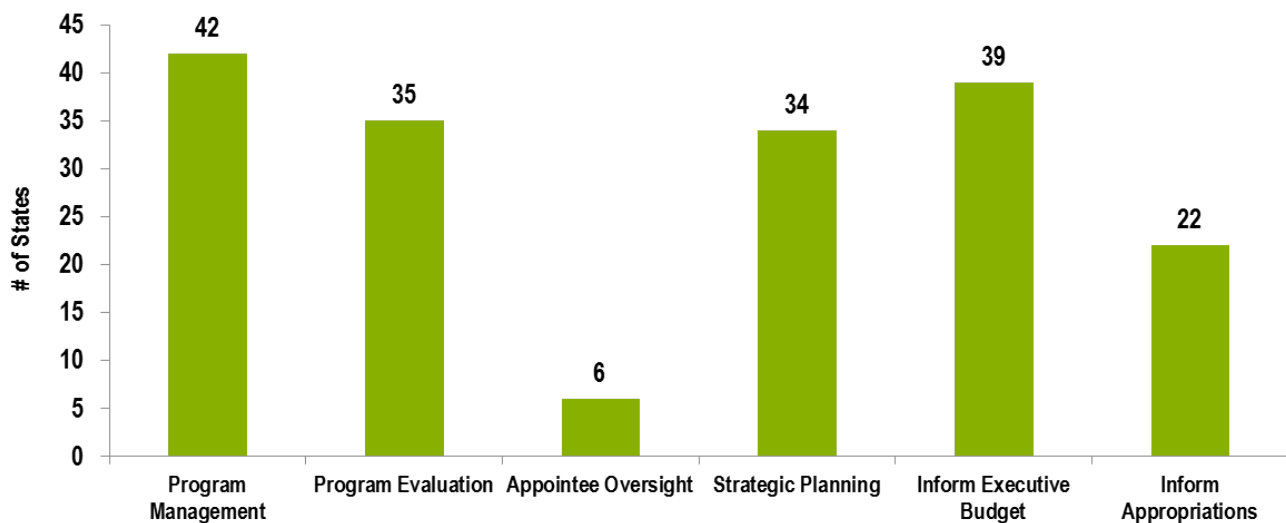
Most executive budget offices play a central role in performance measurement in their states, and are often the primary “on-point” agency overseeing performance use and efforts in the state. In 35 states, the budget office manages the collection and reporting of performance measures, either independently or in conjunction with other state entities such as the legislature and agencies, as shown in **Figure 3**. Moreover, 29 state budget offices help determine which performance measures are reported, though this exercise is usually performed in collaboration with other state entities, including state agencies, the governor’s office, and the legislature. Forty states also require performance measures be submitted as part of each agency budget request.⁶

Additionally, states were asked to indicate various management analysis tasks regularly performed by the budget office. Here, 22 states reported that the budget office is charged with development, implementation and/or oversight of the state’s performance management system. Most states that reported serving this function also indicated that they conduct management reviews of departments and/or provide management consulting services to departments.⁷

How Do States Actually Use Performance Data?

One topic in particular that NASBO’s latest *Budget Processes* report aims to shed more light on is how performance measures are actually used in state government, beyond simply talking about whether states practice performance budgeting. States were asked to indicate whether performance measures are used for the following purposes: 1) internal agency/program management; 2) program evaluation; 3) gubernatorial appointee performance oversight; 4) strategic planning and setting priorities; 5) inform executive budget recommendations; 6) inform legislative actions on appropriations; and/or 7) other. All but two states cited at least one application of performance measures (the two states that reported no use – Arkansas and Ohio – also reported elsewhere in the report that no performance measures are collected in their states).

The most commonly cited use of performance measures is to support internal agency or program management, followed by informing the executive budget recommendations, program evaluation, and strategic planning and setting priorities, as shown in **Figure 4**. Nearly half of states reported using performance measures to inform legislative appropriations, while few states said that performance measures are used for gubernatorial appointee oversight.⁸

Figure 4. States Use Performance Measures for a Variety of Purposes

As one might expect, Louisiana, New Jersey, Texas and the District of Columbia, which all reported elsewhere in the survey that they primarily follow a “performance budgeting” approach, marked that they use performance measures to inform both the executive budget and legislative appropriations. Moreover, nearly all states that reported using performance budgeting as a secondary budgetary decision model reported using performance measures to inform executive budget recommendations.

States that want to increase the use of performance measures for a particular purpose may seek to draw data connections to understand what other relationships may exist. For example, among the 22 states and D.C. that reported the use of performance measures to inform legislative appropriations, 17 (74 percent) indicated that they have statutory requirements in place for performance measures.⁹ Meanwhile, among the remaining 28 states that said performance measures are not used to inform legislative action on the budget, only 15 (54 percent) have requirements in statute on performance measures. As another example, among the 13 states in which agency requests include budgetary information by outcome,¹⁰ each one reported that performance measures are used for internal agency and program management, and 12 out of 13 reported their use for program evaluation and for informing executive budget recommendations. Of course, one cannot infer causation from correlation, but these relationships may warrant further study.

Conclusion

It is challenging to distill exactly how and to what extent states collect and use performance data for budgeting and management into a handful of tables and numerous “Yes/No” questions. Determining the impact the use of performance information has on government efficiency and effectiveness is also extremely difficult. Even so, the 50-state comparative information found in NASBO’s 2015 *Budget Processes in the States* report provides a snapshot of how state budget offices interpret the role that performance measures, expected results, and outcomes play in the allocation and management of limited state resources. The report can also serve as a resource for further research inquiry into a number of topics related to performance budgeting and management at the state level. The use of performance information and evidence to inform budgeting and management in the states will continue to be an important public policy activity and efforts to innovate in this area are critical for the nation’s state budget officers.

¹ NASBO, *Investing in Results: Using Performance Data to Inform State Budgeting* (Spring 2014).

² For a complete list of definitions, see NASBO, *Budget Processes in the States* (2015), p. 65.

³ For complete state-by-state data, see *Budget Processes in the States* (2015), Table 12.

⁴ See *Ibid.*, Table 27.

⁵ For more discussion on best practices related to performance measures, see NASBO's *Investing in Results* report.

⁶ See *Budget Processes in the States*, Table 28.

⁷ See *Ibid.*, Table 32. Table 32 also provides general information on statewide initiatives to improve government efficiency and management in the last five years, such as LEAN.

⁸ See *Ibid.*, Table 29.

⁹ See *Ibid.*, Table 28.

¹⁰ See *Ibid.*, Table 20 on “Budget Formats” used for agency requests, the executive budget document, legislative appropriation bills, and accounting records.

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